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NEGATIVE OR POSITIVE: WHICH EXPERIENCE MATTERS FOR INTERNATIONAL M&A INITIATION STAGE?

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Abstract: This study aims to uncover the initiation stage of international M&A and indicate what type of experience affect the successful completion of this stage. Besides different types of experience are analyzed in different formal and informal institutional settings in order to reveal how institutional environment can moderate firm's absorptive capacity implementation on M&A initiation stage.

In the study sample of 509 international M&A deals initiated by Russian MNEs in the period of 2000-2012 is empirically tested by mean of logistic regression analysis. The empirical analysis indicates that prior experience in certain market always increases the probability of M&A deal announcement irrespectively the degree of proximity with formal and informal institutions of the host country. However firm's negative experience impedes further internationalization especially if institutional environment is dissimilar. Positive M&A experience may as increase probability of M&A deal announcement as decrease it depending on familiarity with institutional environment.

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1. Introduction

Despite growing interest to Russian multinational enterprises (MNEs) their international strategies and organizational capabilities are still poorly studied. Scholars mark that most of the research on Russian MNEs was rather descriptive (Liuhto and Majuri, 2014) and call for more research investigating processes taking place at the later stage of economic transformation in Russia (Michailova and Sidorova, 2010). More than two decades have passed since Russian MNEs entered to the market as global players and started their own internationalization path relying on prior knowledge and accumulating new experience.

Acknowledged the importance of organizational learning and prior experience scholars neglected its role at the negotiation phase of international M&A deals before the announcement. Over the past several decades relatively little research was done on the pre-acquisition or early phase of M&A. Only few studies (Angwin, 2009; Al-Laham, Schweizer and Amburgey, 2010) investigated M&A process focusing on due diligence or negotiations before M&A deal completion.

Multinational enterprises (MNEs) cross national boundaries relying on information available for them either from internal or from external sources. Johanson and Vahlne (1977) in their Uppsala model emphasize the importance of firms internal knowledge derived from own experience, which predict firm's resource commitment to certain market. Other scholars have found that not only internal sources of information but also external can provide the firm with necessary means to enter foreign markets. However the concept of absorptive capacity (Cohen and Levinthal, 1990) suggests that even though the firm can acquire the knowledge from outside this capability depends on its internal knowledge base directly related to its internally focused learning activity (Weerwardena, 2007).

Anecdotal evidence indicates that only a small percentage of potential acquisition targets, which were evaluated, are in fact acquired (Johnson, Whittington, Scholes, Angwin & Regner, 2014; Muehlfeld, Rao Sahib & Witteloostuijn, 2012; Wong & O'Sullivan, 2001). Evidently both external and internal factors can influence the process and what is less studied how these factors in combination may shape the pre-acquisition stage. We can assume that certain organization capabilities exhibit different outcomes in different institutional setting, but empirical evidences are required.

Drawing upon absorptive capacity concept I argue that firm's internal capabilities to learn have crucial meaning at each stage of international M&A deal and in particular at initiation stage, undeservingly neglected by international business scholars. Our knowledge of the processes occurring during the first phase of M&A is scarce.

This study aims to uncover the early stage of international M&A processes initiated by Russian MNEs and to identify what type of experiential knowledge enables M&A first stage completion. In other words I raise following research questions: What type of firms' prior experience is relevant on the initiation stage of international M&A? What does characterize initiation stage of international M&A? and What is the impact of institutional environment on firm's absorptive capacity realization during the initiation stage of M&A?

I address these research questions by conducting quantitative study of Russian MNEs successful or failed attempts to close international M&A deals. The sample of 510 M&A deals covers ten years time from 2000 to 2012. Logistic regression analysis indicates that for Russian MNE's market specific experience is crucially important at initiation stage of M&A in any institutional environment whereas negative experience may hinder further internationalization in unfamiliar context. Institutional settings in fact moderate the positive or negative impact of firm's experience during the pre-acquisition stage. Among other important factors impeded the success of initiation stage – state ownership, but only in proximate by culture and formal institutions markets.

The contribution of this study is threefold: first, I complement international business theory namely Uppsala model with organizational learning perspective particularly emphasiz-

ing the role of different type of firm's prior experience; second, I shed light on the initiation stage of international M&A remained behind the side-scenes for a long time; third, I contribute to the small research on Russian MNEs by furthering our understanding of their absorptive capacity.

2. Literature review and theoretical background

2.1. Experiential knowledge in internationalization theories

There are two main approaches to firm's internationalization process: economic and behavioral (Amal et al, 2015). Theories related to economic stream are industrial organization theory (Hymer, 1976); the internalization theory (Buckley and Casson, 1976); and eclectic paradigm (Dunning, 2000). On the other side there are scholars who promoted behavioral theories, Jonason and Vahlne with their Uppsala internationalization process model are among the most advanced in the field.

Speaking about experiential knowledge three stream of international business (IB) literature pay particular attention to this phenomenon: the process model of internationalization, international new ventures or born-global, the management characteristics perspective (Michailova et al, 2008)

In turn the process internationalization literature is dominated by two main flows: the stage-based approach and the international new venture or born-global approach (Casillas et al, 2009). Knowledge is a central explicative factor in both approaches. From the stage-based perspective knowledge is related in circular manner to the company's international commitment through a path-dependent process (Johanson and Vahlne, 1977, 1990). International entrepreneurship literature states that alternative sources of knowledge cause the rapid internationalization.

Sune Carlson (1966) was one of the first who questioned the importance of knowledge and experience in firm's internationalization process. He emphasized the challenge, which firms face while entering foreign markets because of lack of knowledge and experience. He hypothesized that the firm tries to handle this challenge by trial and error and by the gradual acquisition of information about foreign markets. After some time Johanson and Wiedersheim-Paul (1975) Johanson and Vahlne (1977, 1990) introduced the Uppsala Internationalization Process Model elaborating Carlson's ideas further.

The process model of internationalization or Uppsala model (Johanson and Vahlne, 1977, 1990) claims that experiential knowledge of international market induces the firm to commit its resources to foreign markets. Experiential knowledge is acquired through learning by doing (Kogut and Zander, 1996; Nonaka, 1994). Notably Johanson and Vahlne (1977) argue that this knowledge is not quickly attained or easily substituted by recruitment of individual who have international experience. Neither this knowledge can be acquired through the firm's network (Johanson & Vahlne, 1990). The authors explain that individual or network-based knowledge has to be integrated with firm knowledge before it might be used.

The international new venture or born-global literature suggests that experiential knowledge is an "enabling resource" (McDougall, Shane, & Oviatt, 1994). The founders of such firms usually already have international experience. McDougall et al (2004) argue that entrepreneur's knowledge about foreign market, its regulations and cultures reduce the uncertainty about operating in this market and makes entrepreneurs aware of opportunities abroad.

The studies on managerial determinants of international behavior state that manager's international experience and their knowledge of foreign markets can predispose firm's international engagement (Bloodgood, Sapienza, and Almeida, 1996; Reuber and Fisher, 1997). Nonaka (1994) pointed out the importance of understanding the relationship between individual and organizational learning.

Some authors argue that choices of geographical location and entry mode depend on kind of knowledge, which the company possesses (Eriksson et al, 1997). Eriksson et al (2000) identify three types of knowledge: business, institutional and internationalization. Thus if the firm has high level of all three types of knowledge it can choose entry mode with high level of control (M&A, greenfield), but if the firm does not clearly perceive what type of knowledge it possess it will tend to perceive greater uncertainty and try to minimize risk as much as possible by entering countries that are physically or culturally closer and by using entry methods representing a low resource commitment (Davidson, 1980; Eriksson et al, 1997, 2000).

Whereas born-global or international new venture concepts highlight the importance of entrepreneur's knowledge and experience, concept of absorptive capacity suggests that experience and knowledge of the firm is embedded in its organizational routines. This was confirmed by Eriksson et al (1997) who found out that "some experiential knowledge is located in the firm, in its decision-making routines and structures" (p. 352). Similar conclusions were made by other scholars who emphasize that frequent acquirers are more likely to make subsequent acquisitions because they have the opportunity to learn from their past acquisitions (Haleblian, Kim & Rajagopalan, 2006) and develop routines. Researchers also argue that internationalizing companies replace cognitive effort related to individual level by routines related to firm level (Cyert and March, 1963; Levitt and March, 1988, Nadolska and Barkema, 2007).

Organizational learning perspective (Cohen & Levinthal, 1990; Huber, 1991; Nonaka & Takeuchi, 1995) claims that learning is a process, which depends on history (on prior knowledge). It might be confronted to sequential internationalization process, which is based on a stock of knowledge, rooted in company's specific experience (Eriksson et al, 2000).

Through experience companies expand their routines (Levitt and March, 1988; Nelson and Winter, 1982). These routines form organizational capabilities (O, Nelson & Winter, 2002) and learning skills that constitute the absorptive capacity of a firm (Cohen and Levinthal, 1990).

In this study I am looking at organizational level in order to reveal firm's absorptive capacity developed through previous experience and acquired experiential knowledge and its contribution to successful completion of pre-acquisition stage. Thus I rely upon Uppsala model that makes organizational learning the cornerstone of internationalization process.

2.2. Organizational learning and M&A process

Since Uppsala Model was introduced researchers have been examining its assumption for several decades already. Some authors (Forsgren, 2002) point out that there is number of dimensions of organizational learning including imitative learning (DiMaggio & Powell, 1983; Huber, 1991), learning through acquisition either business units or people (Barkema & Vermeulen, 1998; Huber, 1991), learning through search and screening (Huber, 1991). While revisiting their model Johanson and Vahlne (2009) state that general internationalization knowledge encompasses several kinds of experience including foreign market entry, mode specific, alliance, acquisition and other kinds of experience, and that is "probably more important than we have assumed back in 1977" conclude the model's authors (2009, p. 1416).

Nevertheless experiential learning is still considered as the core factor of internationalization process (Johanson & Vahlne, 2009). Other research streams such as Nelson and Winter (1982) evolutionary theory or the concept of absorptive capacity (Cohen and Levinthal, 1990) are rooted in this assumption.

Cassillas et al (2009) argue that prior information knowledge can come from three major sources: (1) individual-level knowledge (2) company-level knowledge and (3) inter-organizational level knowledge. Generally speaking all information sources may be divided into two: internal and external. Internal information is obtained through the organization itself-experienced-based knowledge (Cassilas et al, 2009). External information is obtained through certain intermediaries that provide information transferred to the company in re-

sponse to specific demand (ibid). Source of this information are public and private organizations, promoting expansion abroad, external consultants, sales agents etc.

Athanassiou and Nigh (2000) argue that the degree of firm's international commitment determines its need to acquire knowledge internally, because internal sources provide essentially tacit knowledge, which is difficult to access from external sources. Cognitive and behavioral theories consider individuals as stores of knowledge (Cohen and Levinthal, 1990). However individual knowledge does not substitute collective knowledge. Cohen and Levinthal (1990) state that a firm's absorptive capacity is not aggregated individual-employees absorptive capacity. On a firm level the knowledge can be generated through two processes: 1) through communication and distribution of knowledge among the members of the management; 2) through the experience accumulated by the organization itself through its cumulative behavior. For the first process a firm does not need any history, for the second process requires a firm to accumulate decisions, actions and results to create its unique, "path-dependent" trajectory over time (Eriksson et al, 2000).

Action is a source of learning through feedback, specific entry actions into a new country represents the main learning source for a company (Andersen, 1993). This learning is based on firm's international experience. Such experience provides with the capacity to identify new opportunities and knowledge how to manage international operations (Eriksson et al, 1997, 2000). It also can be a source of market and institutional knowledge regarding countries with slight geographical and cultural differences to the country where the company already operates (Andersen, 1993, Johanson and Vahlne, 1990).

2.3. Initiation stage of M&A

Jemison and Sitkin (1986), probably the largest contributors to process approach to M&A, identified seven sequential phases of decision-making. These seven phases are: strategic objectives, searching and screening, strategic evaluation, financial evaluation, negotiation, agreement, and integration.

Angwin et al (2015) point out that the pre-acquisition decision-making process is more complex than it was perceived in previous studies and includes number of acquisition actors activities that are invisible for traditional strategy research (p. 1367). The authors focus on routines as micro-foundations of this M&A stage. Their qualitative study uncovers nuanced picture of M&A authorization routines

I define the initiation stage of M&A as the process between two events: choice of potential target company and deal announcement or signing the preliminary treaty. The information about potential target company can come from different sources. The acquirer can search for the target by mean its own resources - either special M&A departments that screen the information from all open sources or managers who can get the information through their network. The information about potential target company can come from external sources as well like consulting companies or agencies. But in particular cases "the instruction can fall down" – and this cases refer to state-owned enterprises or affiliated with politicians firms. Nevertheless the firm first of all follows its strategy and screens off all the information.

As soon as the target is identified the company will search for new knowledge about the foreign market: consumers, the size of potential market, nature of governmental institutions and market competitors etc. (Li et al, 2004; Yip et al, 2000, Johanson and Vahlne, 2006). Knight and Liesh (2002, p. 987) argue that the acquisition of international knowledge is an iterative process. The firm is involved into a continuous cycle of information searching, translation and assimilation for internationalization process. The key determinant of speed of the new knowledge search process is the level of prior knowledge, generated either at individual level, or at organizational or at supra-organizational (Casillas et al, 2009)

Once the firm has made this selection it has to negotiate the merger transaction or make a takeover bid. The aim is to make a deal that will satisfy the strategic objectives of the firm and create value (Caiazza, 2013). The deal structuring and negotiation process is very com-

plex and involves various interconnected steps including valuing target companies, choosing advisors to the deal, obtaining and evaluating as much intelligence as possible about the target, performing due diligence, negotiating the positions of top managers of both firms for further integration, developing the appropriate bid and defense strategies and tactics within the regulatory settings of foreign market etc (Caiazza et al, 2013). The successful completion of this stage is M&A deal announcement for the wider public.

The important issues which should not be neglected is a context in which the negotiations occur. Business scholars increasingly acknowledge the importance of the institutional environment in accounting for business behavior and performance (Henisz & Swaminathan, 2008). Institutional and macroeconomic environment are necessary constituents shaping the initiation stage of M&A. For this study institutional environment is one of the crucial factors determining the value of firm's experience as the knowledge is valuable only when it might be applied in the current context (Michailova & Jormanainen, 2011).

3. Hypotheses development

The M&A deal defined as rumored at the phase of negotiations when the information became available for external public particularly through media or other external organizations. This period is characterized by social interactions between multiple actors at different levels.

Among reasons determining unsuccessful negotiation outcomes authors name legal or regulatory obstacles (Evenett, 2001); negative reaction from the public or capital markets (Puranam, Powell & Singh, 2006); contextual changes (Angwin, 2007).

I argue that organizational capabilities that enhance the negotiation process are of crucial importance for the successful result. Angwin et al (2015) call the pre-acquisition stage as authorization period and define it as an organizational routine as it is a temporal structure aiming to accomplish organization work (Feldman, 2000).

The behavioral models of internationalization process emphasize the role of perceived challenges and opportunities, by other words perceived costs of internationalization. This cost perception directly depends on firm's prior experience or manager's prior experience. Nadolska and Barkema (2007) suggest that experience with international acquisitions provides with routines that help to economize on cognitive efforts devoted to acquiring abroad, thereby reducing the time spent on the takeover (p. 1173)

The Uppsala model predicts how the organizations learn and how their learning affects their internationalization. The authors of the model argue that lack of knowledge impedes firms' international operations however necessary knowledge can be acquired through own experience first of all (Johanson & Vahlne, 1997). Moreover the firm perceives foreign market uncertainty through its experience lenses. The more the firm knows about the market the lower the perceived market risk is and the larger the degree of firm's internationalization in this market. Johanson and Vahlne claim that experience is driving force in the firm's internationalization process (1990, p. 11).

Other scholars confirm this assumption stating that the more a firm acquires than more it will develop routines for screening and purchasing companies (Amburgey & Miner, 1992; Vermeulen and Barkema, 2001); gain insights into the right level of acquisition integration (Pablo, 1994) as well as adopt to solve administrative problems (Lubatkin, 1983).

However some authors argue that international experience generates useful knowledge of a general nature (Eriksson et al, 1997). This refers to business knowledge and institutional knowledge that is not related to specific country markets but relevant to all markets, what contradicts Johanson and Vahlne (1977), highlighting that relevant experience is market specific.

Haleblian and Finkelstein (1999) indicate that more experienced buyers are able to differentiate the challenges of different types of acquisitions whereas inexperienced buyers tend to inappropriately generalize from their limited experience. Later Finkelstein and Haleblian (2002) confirmed their assumption indicating that similar acquisitions are positively related to acquisition performance.

Hypothesis 1a: if Russian MNE had prior experience in certain country the likelihood of successful completion of initiation stage of new M&A deal in the same country increases.

International experience of key managers or founders prior to founding make them aware of the value of opportunities abroad and of common practices used to exploit those opportunities (Chandra et al, 2009), but at the same time prior experience increase manager's belief in their ability to access alternatives in foreign markets (Bruneel et al, 2010) and increases the venture's confidence in its ability to successfully navigate the perils of reaching beyond its domestic borders (Lamb, Sandberg, Liesh, 2011)

Levitt and March (1988) also identify "superstitious learning" which is misunderstanding arisen as outcomes from organizational action unfold. Such type of learning might cause confusing experience. Thus the conclusions drawn and attitude developed from international experience may not be positive and it may be treated differently by existing firms (Welch & Welch, 2009).

Douglas et al (2007) findings underscore the potential value of both learning from negative and positive experience. However the authors state that a firm tends to realize first of all value of its knowledge if it is acquired from successful experience rather than negative.

Hypothesis 2a: Positive prior experience of M&A deal announcement by Russian MNEs increase probability of new deal announcement.

Welch & Welch (2009) point out that the links between prior international experiences, its outcomes and types of learning are not straightforward. That is way it is difficult to anticipate what the connection between organizational memory and individual perception are and what lessons might be learnt out of previous international activity.

Levitt and March (1993, p. 110) mention the possibility of failure myopia, whereby 'organizational learning oversamples successes and undersamples failures. Any learning process tends to eliminate failures and this tendency is accentuated by the way learning produces confidence and confidence produces favorable anticipations and interpretations of outcomes'.

Failure as learning experience receives increasing attention in the management literature (Miner et al, 1999, Sitkin, 1992). Miller claims that a firm's failure can be instructive, but they only suggest a wide range of possibilities about what it has done wrong and not enough about what must be done right (2003, p. 972).

Same assumptions were suggested by Levitt and March (1988) who noted that multiple errors such as unsuccessful, divested acquisitions lead to firms' learning of what part of their old routines is effective in new settings and implicate new routines into old repertoires.

Hypothesis 3a: The prior negative experience of Russian MNEs increases likelihood of M&A deal announcement

Apparently for the acquiring firm both formal and informal institutions are important at initiation stage but in different manner. Formal institutions are subject for firm's learning. This is one of the aim at this period of time to find out how firm's operations are regulated in host country, what are the differences between home and host country, who are main stakeholders etc. High institutional distance often suggests lower familiarity with the new envi-

ronment and therefore increases the costs of doing business abroad (Cuervo-Cazurra&Genc, 2011; Henisz, 2000).

Differences of value, religion and behavior require a careful consideration of the way in which M&A is implemented (Caiazza and Volpe, 2015). According to Uppsala model imperfect market knowledge affects the decision-making process during the internationalization. This imperfect knowledge concerns the institutions as formal as informal in the foreign market and the way in which they work. The lack of institutional knowledge makes difficult to the firm to understand technical and commercial laws and norms (Eriksson et al, 2007). Moreover it is not enough just to know the norms it is also important to understand how these norms are applied in practice.

Some scholars note that knowledge and routines that applied in one country or group of similar countries can routinely be used in the next. (Nadolska and Barkema, 2007). Countries overlap to some extent in terms of informal institutional framework, typically across countries close geographically located. As such informal institutional knowledge obtained in a given country will be somewhat useful and more easily transferable to other countries in the same cultural block.

The same implies to the knowledge of culture including language. Whereas formal institutions have critical meaning for the acquirer's final decision informal institutions can strongly affect the negotiation process. As a lot of interpersonal communication occurs at this stage, cultural differences on individual level play an important role – they can impede the negotiation process and hinder the deal announcement. Taking into account this assumption I hypothesize that

Hypothesis 1b: firm's prior experience in certain market increases the likelihood of M&A deal announcement notwithstanding the institutional environment

Hypothesis 2b: Familiar institutional environment mitigates the risk of overconfidence entailed by prior positive experience

Hypothesis 3b: If institutional environment is unfamiliar negative experience decreases the likelihood of M&A deal announcement

4. Methodology

3.1 Variables and measurement

To test the hypotheses I aim to use a dataset containing international M&A deals. Zephyr Bureau van Dijk's M&A deal's information database includes all the deals with status rumored, rumored-withdrawn, rumor-expired and announced.

The M&A deal defined as rumored at the phase of negotiations when the information might get available for media or other external organizations. The limitation of the sample is the fact that not always this information open for wider public, however quite often negotiation process is quite long and attracts public attention. It is assumed that the period between rumored and announced is an initiation stage of international M&A.

The sample contains all rumored international M&A deals of Russian MNEs from 2000 until 2012. I also cover 2012-2014 period in order to check M&A deals rumored in 2012 as they might be announced later. Initial sample consisted of 2170 deals. Zephyr Bureau van Dijk offers information about source of rumors and source of official information. Rumors may come from different websites (e.g. Forbes) or electronic publications or companies' press releases or other public sources. The information about announcement as a rule comes from either acquirer or target officials.

All deals were checked for presence of source of rumors and dates. M&A deals as minority stake increase, capital increase, and institutional buy-out were excluded from the sam-

ple. Acquirers noted as individuals or unknown companies were also eliminated. After collecting available firm level data and checking all the deals for consistency the final sample consisted of 509 M&A deals, 400 of them were announced and 109 were not. Thus the variable *success of initiation stage* gets 1 point if the deal was announced and 0 otherwise.

Independent variables

Experience

Market specific experience was measured using a dichotomous variable that refers to firm's experience in the certain market whether it is subsidiary or representative's office or any other form of firm's presence in the market. Zephyr database also provides with information about foreign subsidiaries. In cases it was not sufficient the company's web sites were examined.

M&A negative experience was measured as a number of M&A deals not announced or withdrawn during the analyzed period plus two years beforehand.

Positive M&A experience variable introduces the number of M&A deals completed in the foreign market.

Institutional environment

All the countries were split into five groups by proximity of formal and informal institutional environment. Fundamental for clustering by formal institutions was Economic Freedom Index, represented by The Heritage Foundation. This index is constituted by 10 freedoms including property rights, freedom of corruption, business freedom, investment freedom and others. All the countries ranked from 1 to 100 according to aggregating scores by these 10 freedoms. Those countries, which ranked 10 positions below and 10 positions above Russia, were included in first group that represents the most proximate formal institutional environment. Accordingly, countries ranked from 10 to 20 position higher or lower are in the second group. And the most dissimilar institutional environment is in countries constituted third group, which is more than 20 positions above in ranking (there were not countries more than 20 positions below in the sample).

Informal institutional environment might be measured by existing cultural indexes such as Hofstede or GLOBE. Nevertheless I preferred to choose another proxy for measuring cultural proximity, which is language. Binary dummy represents culturally proximate countries if their dominant language is Slavic and distinct if otherwise.

In such a manner the model includes five variables representing three groups corresponding to their proximity to Russia by formal institutions and two by informal.

Control variables

Macro-level factors may also affect the decision of companies to announce M&A deals, thus I included following country-level variables: GDP growth of home country (Russia), GDP growth of host country, real GDP of host country, Economic Freedom index of Russia, Economic Freedom index of host country.

I controlled the model also on industry and firm level. Industry was controlled by two dummy variables: manufacturing firm and service firm. Firm-level variables that might influence firm's internationalization strategy are: firm size (natural logarithm of firm's total revenue) dummy variable for state-owned firms (percentage of stake belonging to the state is more than 50) firm's age (number of years firm existed before M&A deal). One more control variable relates to characteristic of the deal whether it is full acquisition or partial. Description of all variables presented in the Table 1.

Table 1. Variables description

Variable	Measurement	Source
Experience		
Market specific experience	Binary variable: 1 if the firm has subsidiary in the same country or	Zephyr Bureau van Dijk

Variable	Measurement	Source
	conducted M&A already	Companies official web sites
M&A negative experience	The number of withdrawn or not announced M&A deals prior to acquisition's rumors	Zephyr Bureau van Dijk
Positive M&A experience	The number of completed M&A deals prior to acquisition rumors	Zephyr Bureau van Dijk
Institutional environment		
Formal institutions proximity 1	Group of countries placed within 20 (10 higher or lower) position in Economic Freedom ranking	The Heritage Foundation (http://www.heritage.org/index/)
Formal institutions proximity 2	Group of countries placed within 20 to 40 (10-20 higher or lower) position in Economic Freedom ranking	
Formal institutions proximity 3	Group of countries placed within 40 to 60 (20-30 higher or lower) position in Economic Freedom ranking	
Informal institutions proximity	Binary variables: 1 if Slavic is a major language in the country; 0 if otherwise	
Control variables		
GDP growth_rus	Annual percentage growth rate of Russian GDP at market prices based on constant local currency	World Bank Database
GDP growth_host country	Annual percentage growth rate of host country GDP at market prices based on constant local currency	World Bank Database
GDP host country	PPP GDP, gross domestic product converted to international dollars using purchasing power parity rates (2011)	World Bank Database
Economic freedom index Rus	Economic freedom index based on 10 quantitative and qualitative factors, grouped into four broad categories, or pillars, of economic freedom: Rule of Law (property rights, freedom from corruption); Limited Government (fiscal freedom, government spending); Regulatory Efficiency (business freedom, labor freedom, monetary freedom); and Open Markets (trade freedom, investment freedom, financial freedom).	The Heritage Foundation (http://www.heritage.org/index/)
Economic freedom index host country		
Manufacturing industry	Binary variable meaning 1 if indus-	Zephyr Bureau van

Variable	Measurement	Source
	try belong to manufacturing:	Dijk
Service industry	Binary variable meaning 1 if industry belong to service	Zephyr Bureau van Dijk
Firm's size	Natural logarithm of firm's total revenue	Zephyr Bureau van Dijk
State ownership	If state owns more than 50% of stakes	Zephyr Bureau van Dijk
Firm's age	Number of years since the firm foundation and until year of M&A rumor	Zephyr Bureau van Dijk
Partial or full acquisition	Binary variable: 1 if acquisition was full (99-100%) and 0 if otherwise	Zephyr Bureau van Dijk

3.2. Analysis and results

In order to detect potential problems with multicollinearity in the model I first examined the bivariate Pearson correlations among all independent variables. The correlation between all the variables was rather low besides economic freedom index of host country with two formal institutional groups dummy. Thus this variable was not included in the models 3 and 4. In addition I calculated the variance inflation factors (VIF) for each variables. The VIF value was low enough as well, the average value for all variables is 2.1, what indicates that the data does not suffer from problems of multicollinearity.

I conducted logistic regression analysis to test the hypotheses. Logit analysis estimates the probability of an event happening and it has been used often on foreign establishment mode strategies. The logit model can be expressed as

$$P(y=1)=1/[1+\exp (-\lambda-X_i\beta)]$$

where Y is the dependent variable meaning either 1 – the probability of an event happens or 0 – the probability of event does not happen. Vector X represents independent variables and vector B represents regression parameter (Ameniya, 1981).

The correct classification of all the models is approximately 80%. The results of Hosmer and Lemeshow test are presented in the table with coefficients (see Table 2)

Table 2. Logistic regression analysis results

	Logit 1	Logit 2	Logit 3 (formal institutions group 1)	Logit 4 (formal institutions group 2)	Logit 5 (informal institutions group - non Slavic)	Logit 6 (informal institutions group - Slavic)
Manufacturing	.3101531 (1.23)	.2865751 (1.12)	.3222692 (0.88)	.3836633 (0.62)	.3214825 (1.00)	.145666 (0.29)
GDPgrowth rus	.0100972 (0.33)	.0079944 (0.25)	.0225848 (0.45)	-.0663367 (-0.83)	-.0015795 (-0.04)	.0858302 (0.43)

	Logit 1	Logit 2	Logit 3 (formal institutions group 1)	Logit 4 (formal institutions group 2)	Logit 5 (informal institutions group - non Slavic)	Logit 6 (informal institutions group - Slavic)
EFrus	-.1396207 (-1.13)	-.1880989 (-1.46)	-.2587824 (-1.34)	.2658345 (0.89)	-.2627906 (-1.65)	.1485093 (-0.77)
GDPgrowth _{hc}	.072481* (1.72)	.0768693* (1.80)	.067181 (1.23)	.1501307 (0.89)	.1244696** (2.14)	-.0489827 (-1.34)
LGDPhc	-.0104358 (-0.15)	-.0057032 (-0.08)	-.1849708 (-1.27)	.1946265 (1.05)	.0242446 (0.30)	-.7653983** (-2.26)
EFhc	.0524365** * (4.10)	.0548805** * (4.18)			.0544707** (3.06)	-.0075971 (-0.20)
Lrevenue	- .1753898** * (-3.83)	- .1446816** (-2.92)	-.1486672** (-1.99)	-.2324018* (-1.75)	-.143425** (-2.32)	-.159868 ** (-1.66)
State-owned	-.4766274 (-1.59)	-.3505892 (-1.12)	-1.143696** (-2.32)	-.0430966 (-0.06)	-.048269 (-0.12)	-1.431172** (-2.07)
Age	.0012868 (0.27)	.0021992 (0.44)	.0099554 (1.19)	-.0131157 (-1.25)	-.0012286 (-0.20)	.0157812 (1.36)
Full acquisition	-.88357*** (-3.31)	-.8993338** * (-1.88)	- 1.427961*** (-3.58)	-.7376515 (-1.20)	-.4873596 (-1.50)	- 2.119131*** (-3.50)
Negative M&A experience		-.2229232** (-1.88)	.1182607 (0.51)	-.6860696** (-2.48)	-.3161685** (-2.34)	.5422193 (1.56)
Positive M&A experience		.0044556 (0.07)	-.1898512 (-1.46)	.3190271** (2.18)	.0424104 (0.62)	-.3732983** (-1.75)
Experience_same country		1.035395** (2.96)	1.521331** (2.76)	1.344217* (1.65)	.7703292* (1.90)	2.221325** (2.17)
Constant	9.202255 (1.44)	10.70616 (1.61)	22.21598*	-12.32058 (-0.71)	13.44021 (1.64)	17.31413 (1.18)
X	55.12***	70.47***	49.19***	31.52***	43.04***	46.10***
-2 log like-	224.5	216.9	95.8	48.47	149.9	106.08

	Logit 1	Logit 2	Logit 3 (formal institutions group 1)	Logit 4 (formal institutions group 2)	Logit 5 (informal institutions group - non Slavic)	Logit 6 (informal institutions group - Slavic)
likelihood						
Pseudo R2	0.1093	0.1397	0.2042	0.2453	0.1255	0.2919
Hosmer and Lemeshow Test	2.595	6.192	3.565	7.139	4.790	7.150
Correct classification (%)	78.33	79.38	76	82.64	81.2	80.60
N	480	480	200	121	346	134

In the first model (Logit1) only control variables were included. Among country variables only two are significant - GDP growth of host country and Economic Freedom index of host country - both with positive sign as was expected. On the firm level company size negatively significant, declaring that bigger firms in terms of revenue fail more often than smaller firms, but it might be explained by larger number of international deals in general. And if the firm aims to acquire 100 per cent of stakes the probability of unsuccessful outcomes of initiation stage is higher.

In the second model experience' variables were added. The results show that prior negative experience decrease the probability of new M&A deal announcement what contradict Hypothesis 3a whereas experience in the same country increase this probability what support Hypothesis 1a. Hypothesis 2a concerning prior positive experience was not supported.

Hypotheses concerning moderating role of institutional environment were tested in models 3, 4, 5 and 6 - within sample of formal institutions group 1, formal institutions group 2 and informal institutions group 1 and 2 respectively. The models including sample from formal institutions group 3 was not significant (p-value > 0, 05).

Sample of formal institutions group 1, representing familiar institutional environment, consists of 200 observations. The results show that the only significant experience in this case is an experience in the same country. In other words if the firm had any prior experience in one country with familiar formal institutional environment the probability of M&A deal announcement is very high. Interesting result is observed for control variables state-owned enterprise - negatively significant, what means that state ownership decreases the likelihood of positive completion of M&A initiation stage.

Slightly different results are introduced in Model 4, reflecting the probability of M&A deal announcement in more distant institutional environment. We can see that all types of prior experience are significant. Negative M&A experience again decreases the likelihood of the deal announcement. Positive M&A experience and prior experience in the country help the firm to complete the initiation stage successfully.

The model capturing M&A deals in culturally proximate group significantly differs from previous models. Prior positive M&A experience decreases the likelihood of M&A deal announcement, same country's experience still support firm's attempt to close the deal. State ownership in the company also decrease probability of new deal announcement if the country culturally similar with Russia.

If countries are not culturally similar than negative experience causes low probability of M&A deal announcement but as in all other models experience in the same country positively affect the likelihood of the deal announcement.

Economic freedom index of host country was excluded from models 3 and 4 for sake of multicollinearity avoidance. However it was included in models capturing informal institutions and it shows significant coefficient when culture of host country is dissimilar. Thus when culture is not similar with home country formal institutions substitute informal and better economic freedom increase the likelihood of M&A deal announcement.

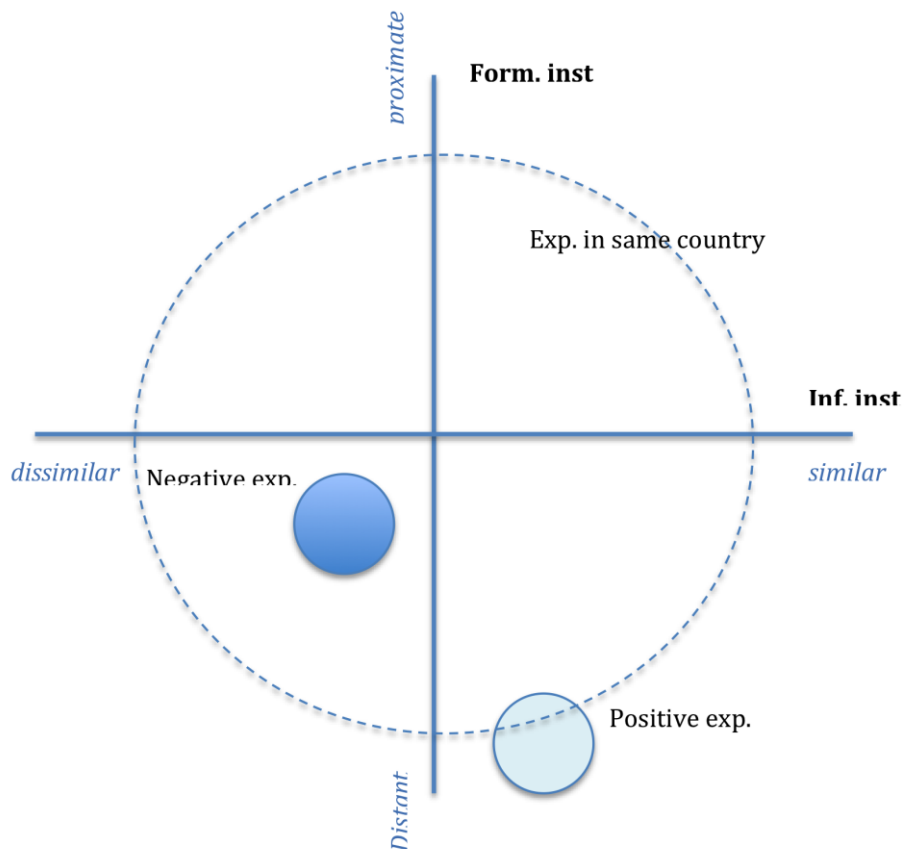
State ownership of the firm negatively affects the probability of deal announcement in two cases: if formal institutional environment is proximate to home-country institutional environment and if informal institutions in host country similar to home country. In other words state ownership decrease the likelihood of successful completion of M&A initiation stage if institutional environment familiar to the firm.

5. Discussion of results and conclusions

M&A is a multidisciplinary, multilevel and multistage phenomenon (Angwin, 2007). Each stage of M&A process has critical meaning for the success of the international deal and firm has to pass all these stages sequentially. This study focused on one of the stages of pre-acquisition phase - so called M&A initiation stage. During this time the firm aims to negotiate the agreement, discuss all the crucial issues and eliminate risks. A lot of social interactions between multiple actors are going on in this period. The firm should possess necessary knowledge and routines to be able provide a stable point for international M&A journey.

Confronting study results to theory (Uppsala model and organizational leaning) I can conclude that despite major theoretical assumptions are supported some deviations caused by institutional context and specificity of the stage of internationalization process are observed. Overall visualization of study results regarding experience' influence on probability of M&A deal announcement is presented on Figure 1.

Figure 1. The role of experience in different institutional settings



As organizational learning view claims firm is routine-based, history dependent system that codify inference from experience into routines or knowledge (Levitt & March, 1988). Thus I hypothesized that accumulated firm's experience can be autonomous from managerial cognitive perceptions and will positively affect the probability of M&A deal announcement. This came true only in certain cases viz. firm's market specific experience and positive experience of M&A deal's completion but in familiar formal institutional environment.

This also confirms the core proposition of Uppsala model claiming that firms, learning how to operate on the foreign market gradually increase their resource commitment in this particular market (Johanson and Vahlne, 1977). The study of Russian MNEs international M&A process at its early stage explicitly support this assumption. Experience in the same country variable was significant in all models, irrespectively to the degree of proximity of institutional environment. So, despite some specific feature Russians MNEs are not that dissimilar with western counterparts on the sample of which the Uppsala model was mostly tested.

Despite the Uppsala model perspective emphasizes the role of experiential learning, reducing perceived risk and encouraging cross-border expenditure, we can see that not every experience enhance firm's internationalization and in different institutional environment it performs differently.

First of all negative prior experience inhibit firm's definite decision to close the deal. Douglas et al (2007) report similar results concerning decision of emerging markets firms to enter developed market. This study result says that negative experience plays rather restraining role first of all in unfamiliar institutional environment. "Once burned" firms do not strive to repeat previous mistakes and exhibit cautiousness and risk avoidance strategy. IB literature states that emerging markets firms are more prone to take risk and jump into unstable environment (Luo & Tung 2007; Luo & Rui 2009). The average age of Russian MNEs analyzed in the study is 22 years. And we can observe that those MNEs do not want to repeat their mis-

takes if they already had negative experience, especially if institutional environment is distant from home country. Thus we can describe these firms strategy as cautious and solid rather than risk taking..

Positive experience turned significant also in unfamiliar formal institutional environment. It has positive impact on M&A deal announcement if this environment is distant from that in home country. This result supports previous finding stating that the firm learns better from the experience with positive outcomes (Douglas et al, 2007). Besides if we look at more distant countries from Russia in terms of formal institutions development (those that formed group 2) we can find there mostly developed countries with stable institutions and transparent regulations although not perfect or close to ideal as it is in third group according to my classification. The positive experience allows to encode the knowledge acquired into routines and develop them further as the environment is not changing fast. I can conclude that Russian MNEs learned from prior positive experience can be rather successful in their M&A activity although the institutional environment is distant from home country.

On the other hand we see that this experiential knowledge decrease the probability of M&A deal announcement in culturally proximate environment. Even though absorptive capacity concept predicts that firm's routines can replace managerial cognitive efforts (Cyert and March, 1963; Levitt and March, 1988, Nadolska and Barkema, 2007), the human side of M&A initiation stage characterized by intense social interactions is highly dependent on manager's behavior and perceptions. If a negative experience results in lack of self-confidence, positive experience in contrary can lead to overconfidence. This overconfidence may hinder the negotiation process or may cause overlooking of potential risks. Boosted by prior luck and relying on their opinion that they know local culture, managers can underestimate costs and their negotiation power.

Speaking about distinctive characteristics of Russian MNEs, state ownership turned as an impediment for completion of M&A initiation stage in similar institutional environment. This fact contradicts the assumption that state provides firms with additional power tools and help them to overcome their liability of foreignness (Panibratov, 2015) But it might be explained from the other side, proximate by culture and formal institutions countries are in the area of Russian state strategic political interests. This may lead to state intervene in the process such as suspension of negotiations or changing the conditions of the deal due to some political issues.

Contribution

The study makes theoretical contribution to three streams of literature: internationalization theories, organizational learning and institution-based view. It supported once again the main prediction of Uppsala model regarding firm's commitment to foreign market after getting some experiential learning, tested it on the sample of Russian MNEs never examined in such way before. I argue that M&A as part of firm's internationalization process has its distinct features and scholars should pay more attention to pre-acquisition M&A stages, including initiation stage. This phase of M&A process includes multi level social interactions and is highly dependent on institutional context, what provides new angle for studying it from Uppsala model perspective. Institutional environment in fact can moderate the impact of firm's absorptive capacity on its internationalization process.

Thus this study contributes also to organizational learning theory and institutional-based view by deepening our understanding of how different forms of experience in different institutional settings can explain the results of M&A initiation state process.

The study represents one of the first empirical tests of Russian MNEs experiential learning determinants of first phase of international M&A generally neglected stage in international business literature. Empirically testing theoretical hypothesis the study provides the basement for important future research contributions, with implication for both international business and organizational learning research.

Managerial implications

The study provides with practical implications for business people first of all emphasizing the role of experiential knowledge in conducting negotiations on international M&A initiation stage. As human beings firms have positive and negative experiences in the past, and like human being firms can learn from their success and failure. However firms tend to rely only on their obvious experience in familiar location neglecting the lessons from their failures. Negative experience is worth to be analyzed and used for future strategies. It might be perceived as an opportunity for improvement rather than fear to repeat prior mistakes. At the same time positive M&A experience should be revisited and analyzed as well because context can change significantly. Managers have to avoid overconfidence after closing number of M&A deals and they should not forget that informal institutions represented by culture do not replace formal institutions and prior positive experience might not be necessarily working.

In other words to minimize the likelihood of M&A deal's breakdown managers have to understand when "knowledge accumulated from experience can be transferred and to what type of environment it might be applied" (Douglas et al, 2007, p. 862)

Limitations

This study has number of limitations: first of all, it focuses only on firm level phenomena remaining human component behind the stage. Second, there are many more other external factors which can influence as firm's absorptive capacity as initiation stage of M&A such as political risks, financial crises, firm's financial state etc. Third, speaking about M&A initiation stage we can not forget about firm's strategy and choice of target, which can be also pushed from aside.

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Appendix I

Descriptive statistics, (Sample - 509 observations)

Manufacturing Industry	303
Service industry	206
Firms with failure experience	146
Firms with positive experience	290
Firms with experience in the same country	110
Formal institution group 1	205
Formal institutions group 2	135
Formal institutions group 3	169
Informal institutions group 1 (Slavic)	135
Full acquisition	302
State-owned firms	97

Appendix II

Formal institutional groups

Formal institution group 1	Angola Azerbaijan Belarus Bermuda Brazil China Georgia Greece Croatia India Italy Kyrgyz Republic Kazakhstan Moldova Mongolia Pakistan Poland Romania Serbia Slovak republic Tajikistan Turkey Ukraine Uzbekistan Vietnam
Formal institution group 2	Armenia Belgium Bulgaria Columbia Cyprus Czech Republic Germany Estonia France Hungary Ireland Latvia Lithuania Panama Peru
Formal institution group 3	Austria Australia Canada Switzerland Denmark Estonia Finland Hong Kong Israel Luxemburg The Netherlands Singapore United Kingdom United states

Appendix III

Slavic countries	Belarus Czech Republic Moldova Poland Serbia Slovak republic Ukraine
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